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ASIA ENERGY LOGISTICS GROUP LIMITED

亞洲能源物流集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0351)

**VERY SUBSTANTIAL DISPOSAL
AND
RESUMPTION OF TRADING**

After Stock Exchange trading hours on 13 May 2011, the Vendor (a wholly-owned subsidiary of the Company) entered into the Agreement with the Purchaser, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the Sale Share and the Sale Loan at the Consideration of HK\$50,000,000. The Sale Share represents 100% of the issued share capital of, and the Group's entire interest in, China Green Power.

The China Green Power Group is engaged in waste incineration power generation business. Following the Disposal, the Remaining Group will cease to engage in waste incineration power generation business and will continue with its other existing businesses in railway construction and operations, as well as shipping and logistics.

The Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM by way of poll. As no Shareholder has a materially different interest in the Disposal, no Shareholder is required to abstain from voting on the resolution to be proposed at the EGM to approve the Disposal.

A circular containing details of the Agreement, financial information on the Group, the China Green Power Group and the Remaining Group, and other information required under the Listing Rules together with the notice of the EGM is expected to be despatched to the Shareholders on or before 10 June 2011.

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 16 May 2011 pending the release of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 20 May 2011.

The Board is pleased to announce that after Stock Exchange trading hours on 13 May 2011, the Vendor (a wholly-owned subsidiary of the Company) entered into the Agreement with the Purchaser to dispose of its entire interest in China Green Power and the shareholder's loan owed by the China Green Power Group. The China Green Power Group is engaged in waste incineration power generation business. Details of the Agreement are set out below.

THE AGREEMENT

Date

13 May 2011

Parties

- (i) Palace View International Limited (the Vendor); and
- (ii) Wise Track Group Limited (the Purchaser).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons, and the Purchaser is an investment holding company.

Assets to be disposed of

Pursuant to the Agreement, the Vendor agreed to sell the Sale Share and the Sale Loan to the Purchaser free from all liens, charges and encumbrances and together with all rights attaching thereto including all dividends and distributions declared, made or paid after the date of the Agreement.

The Sale Share represents 100% of the issued share capital of, and the entire interest of the Group in, China Green Power.

As at the date of the Agreement, the outstanding amount of the shareholder's loan owed by the China Green Power Group to the Vendor was approximately HK\$202.18 million.

Consideration

The Consideration shall be HK\$50,000,000, which has been paid or shall be payable by the Purchaser in cash in the following manner:

- (i) HK\$5,000,000 as deposit and part payment of the Consideration upon the signing of the Agreement; and
- (ii) the balance of HK\$45,000,000 on Completion.

Conditions

Completion is conditional upon:

- (i) (if required by the Purchaser) the Purchaser being satisfied with the results of the due diligence review on the legal, financial, taxation and environmental aspects of the business and assets of the China Green Power Group to be performed within 14 days from the date of the Agreement;
- (ii) all necessary approvals, authorisations, consents, registrations, filings or other procedures required on the part of the Vendor in connection with the Disposal having been obtained/completed;
- (iii) there being no material adverse change in the business and financial position of the China Green Power Group from the date of the Agreement to the date of Completion;

- (iv) the passing by the Shareholders of ordinary resolution(s) to approve the Agreement and the transactions contemplated thereunder in accordance with the Listing Rules and applicable laws and regulations;
- (v) the Company not being treated as not having a sufficient level of operations or assets to warrant the continued listing of the Shares (as required under Rule 13.24 of the Listing Rules) after the Disposal; and
- (vi) the representations and warranties given by the Vendor in the Agreement remaining true and accurate in all respects.

The above conditions (i), (ii), (iii) and (vi) may be waived by the Purchaser. The other conditions are not capable of being waived. If the above conditions are not satisfied or waived on or before 30 September 2011 (or such later date as the Vendor and the Purchaser may agree in writing) or the Vendor does not proceed to Completion, the Agreement shall cease and determine and the Vendor shall refund the deposit of HK\$5,000,000 in full, without interest, to the Purchaser. If the Purchaser does not proceed to Completion, the deposit shall be forfeited in full by the Vendor. Thereafter, neither party shall have any obligation nor liability towards each other under the Agreement, save for any antecedent breaches.

Completion

Completion shall take place on the day falling the third business day after the date of fulfillment or waiver of the conditions under the Agreement.

INFORMATION ON THE CHINA GREEN POWER GROUP

Dongguan CSCP, the principal operating subsidiary of the China Green Power Group, has been granted by the Dongguan Provincial Government the concession for operating waste incineration power generation plant in Dongguan for a period of 25 years commencing from November 2003. The waste incineration power generation plant of Dongguan CSCP has a capacity of processing up to 1,000 tonnes of municipal solid waste per day and generate electricity of approximately 200 million Kilowatt-hour per annum.

The unaudited consolidated losses (both before and after tax) attributable to the China Green Power Group included in the audited consolidated accounts of the Group for the two years ended 31 December 2009 and 2010 are approximately HK\$2.78 million and HK\$60.18 million respectively. The unaudited net liabilities of the China Green Power Group as at 31 March 2011 were approximately HK\$140.70 million.

REASONS FOR THE DISPOSAL

At present, the Group is principally engaged in (i) railway construction and operations; (ii) shipping and logistics business; and (iii) waste incineration power generation.

The business of the China Green Power Group has not generated satisfactory performance in the past few years. As described in the paragraph headed “Information on the China Green Power Group” above, the losses attributable to the China Green Power Group were approximately HK\$2.78 million for the year ended 31 December 2009 and approximately HK\$60.18 million for the year ended 31 December 2010. The significant increase in loss for the year ended 31 December 2010 was principally due to (i) the rise in fuel prices which is the major cost component of the incineration business and the consequential squeeze in gross profit margin of the China Green Power Group; (ii) an impairment of approximately HK\$24.11 million made against Dongguan CSCP’s concession intangible assets for operating waste incineration power generation plant in Dongguan in view of the unsatisfactory performance; and (iii) an impairment of the goodwill attributable to the China Green Power Group of approximately HK\$27.55 million. The impairments were made with reference to an independent valuation. In order to improve the performance of the power plant, it is vital to reduce the use of coal as its main source of fuel by carrying out major upgrading work to the existing power plant and substantial capital expenditures will be required if the upgrading work is to be implemented. In light of these circumstances, the Directors consider it beneficial to the Company to dispose of this loss making business in order to reallocate its resources to the other business segments of the Group which may have better prospects in generating better return for the Company.

The Consideration is determined after arm’s length negotiations between the Vendor and the Purchaser taking into account factors including the net liabilities of the China Green Power Group and the amount of shareholder’s loan owed by the China Green Power Group as at 31 March 2011, and the unsatisfactory performance of the China Green Power Group in recent years and expected for the current financial year. For illustration purpose and based on the net liabilities of the China Green Power Group as at 31 March 2011 of approximately HK\$140.70 million, the amount of shareholder’s loan owed by the China Green Power Group of approximately HK\$202.18 million as at 31 March 2011 and the Consideration, the Disposal is expected to result in a loss of approximately HK\$11.48 million for the Group before expenses. The actual loss arising from the Disposal however will be calculated based on the net liabilities of the China Green Power Group and the Sale Loan as at Completion, which may be different from the estimated loss disclosed above.

Upon Completion, the Group shall cease to hold any interest in China Green Power and China Green Power shall cease to be a subsidiary of the Company. The proceeds from the Disposal, after deducting expenses incidental to the Disposal, are estimated to amount to approximately HK\$48.7 million and are intended to be used as general working capital of the Group.

Taking into account the unsatisfactory performance of the China Green Power Group, the cash proceeds receivable from the Disposal and the opportunity to reallocate resources after the Disposal to other business segments which may have better growth potential, the Directors (including the independent non-executive Directors) are of the view that the terms of the Agreement are fair and reasonable and the Disposal is in the interest of the Company and the Shareholders as a whole.

BUSINESS OF THE REMAINING GROUP AFTER THE DISPOSAL

Following the Disposal, the Remaining Group will cease to engage in waste incineration power generation business and will continue to engage in its existing railway construction and operations, as well as the shipping and logistics business.

Railway construction and operations

The Group's investment in railway construction and operations started in July 2009 when the Group acquired a 70% equity interest in Gofar, which was subsequently increased to 100% in February 2010. Gofar indirectly holds a 62.5% equity interest in each of Chengde Kuanping and Chengde Zunxiao, and a 51% equity interest in Tangshan Tangcheng. The business scope of Chengde Kuanping, Chengde Zunxiao and Tangshan Tangcheng are the construction and operations of the 平泉段 (Pingquan Section*), the 寬城段 (Kuancheng Section*) and the 唐山段 (Tangshan Section*) of the Zunxiao Railway respectively, and their respective operation period are 30 years from 25 November 2008, 30 years from 21 November 2008 and from 24 April 2007 to 26 May 2039.

The Zunxiao Railway currently under construction is a 121.8 km single-track railway with 12 stations connecting two major municipalities in Hebei Province, namely Tangshan City (唐山市) and Chengde City (承德市). The Zunxiao Railway is divided into three sections, namely the 53.5 km Tangshan Section, the 39.4 km Kuancheng Section and the 28.9 km Pingquan Section, and will connect with the state-level railway 錦承綫 (Jincheng Line*) and 唐遵綫 (Tangzun Line*) to form a regional network. It is adjacent to several mineral production facilities each with a capacity of over 1,000,000 tonnes per year.

Relevant approvals for the construction of the Zunxiao Railway were obtained in 2008 and construction work for the first 25 km of the Tangshan Section has been substantially completed. Application for the necessary operating licence for the first 25 km of the Tangshan Section with transportation limit of 2 million tonnes has been submitted to the Beijing Railway Bureau and the Hebei Railway Bureau. The Directors do not envisage any legal obstacles in obtaining the operating licence and expect the licence will be obtained in June 2011. Subject to the finalisation of necessary documentations, trial operation is expected to commence in early July 2011 following the completion of certain minor improvement works currently being undertaken at the stations along this section, and full operation is expected to commence after the successful trial operation.

As announced by the Company on 24 November 2009, a co-operative framework agreement has been entered into by the Company with China Oriental, pursuant to which the parties confirmed that they will negotiate in good faith within the two-year period from the date of the co-operative framework agreement (i.e. 24 November 2009) to conclude, among other things, a formal agreement relating to the provision by the Gofar Group of railway logistics and transportation services via the Zunxiao Railway to a subsidiary of China Oriental. China Oriental and its subsidiaries are principally engaged in the manufacture and sale of iron and steel products in Hebei Province in the PRC. In addition, the Gofar Group has obtained letters of intent from a number of iron and steel producers indicating the estimated annual demand for freight carriage services from the Zunxiao Railway after the Zunxiao Railway commences operations. The Directors expect that the formal agreement with China Oriental will be signed and the Company will commence negotiations with the other iron and steel producers to formalise the services arrangements after the necessary operating licence has been obtained. The Gofar Group will generate revenue to the Remaining Group from the carriage of natural resources (such as coal and iron ore powder), provision of cargo loading and/or unloading services and storage services of goods once trial operation is underway. The construction work of the remaining sections of the Zunxiao Railway is expected to be completed by end of 2011, and all necessary permits from the relevant PRC government authorities are expected to be obtained in order for the Zunxiao Railway to commence operations in mid 2012. Based on the estimate of the Company with reference to the co-operative framework agreement entered into with China Oriental, the 2 million tonnes transportation limit under application for the first 25 km of the Tangshan Section and the expected grant of operating licence for the first 25 km of the Tangshan Section in June 2011, the revenue from the operation of the Zunxiao Railway in 2011 is estimated to be in the region between RMB8 to 13 million (equivalent to approximately HK\$9 to 15 million). The revenue is expected to scale up substantially in 2012 to around RMB80 to 90 million (equivalent to approximately HK\$95 to 107 million) assuming the remaining section of the Zunxiao Railway commences operation as scheduled to provide additional capacity for China Oriental and other iron and steel producers in Hebei Province.

** for identification only*

According to the statistics published by the National Bureau of Statistics of China, freight traffic by railways in China has increased continuously over the past years, with a year-on-year growth of approximately 5.48% per annum from approximately 2.7 billion tonnes in 2005 to approximately 3.3 billion tonnes in 2009. Although national railways still accounted for the majority of the freight traffic by railways, the contribution of non-government controlled joint venture railways has seen a rapid growth from approximately 196.6 million tonnes (7.30% of total freight traffic by railways) in 2005 to 319.0 million tonnes (9.57% of total freight traffic by railways) in 2009. As mentioned above, the Zunxiao Railway is adjacent to a number of large scale mineral production facilities which constitute a huge and steady demand for transportation logistics. At present, there is a strong reliance on road transport which is more expensive and less reliable, particularly in winter time. The Directors believe that freight railway will become a more favourable and viable alternative with cost efficiency and reliability. Having taken these into account, the Directors believe that the Zunxiao Railway is well positioned to take advantage of the economic growth in the PRC as well as the expected increasing demand for freight traffic by railways to contribute positively to the Group once it commences operations.

Based on the 2010 annual report of the Company, the segment assets and liabilities attributable to the railway construction and operations of the Group amounted to approximately HK\$1,569.7 million and HK\$918.2 million respectively as at 31 December 2010.

Shipping and logistics

The Group's shipping and logistics business commenced in May 2010 when the Group acquired the entire equity interest in Ocean Jade. Ocean Jade holds a 50% joint venture interest in the JV Company which is engaged in the investment in ship assets and provision of coal shipment services and accounted for as a jointly controlled entity of the Group. The JV Company has in March 2010 entered into a contract of affreightment with a power plant in Jiangsu Province, pursuant to which the JV Company shall provide coal shipment services for the power plant. Two vessels each with deadweight of 35,000 metric tonnes have been put into operation in September 2010 and February 2011 respectively. Since the commencement of its operations, the JV Company has recorded revenue of approximately RMB35.74 million (equivalent to approximately HK\$42.70 million) for the period from September 2010 to March 2011.

As evidenced by the Baltic Dry Index which is an index that measures the demand for shipping capacity versus the supply of dry bulk carriers and tracks worldwide international shipping prices of commodities, shipping prices have dropped significantly after the financial tsunami, with the index falling from a level of above 11,000 in May 2008 to the present level of about 1,200. The Directors consider that the shipping market has bottomed and are positive that the market is set to turnaround. In view of this, the JV Company plans to acquire another two bulk carriers of about 55,000 metric tonnes each within 2011 to increase its carriage capacity. It is contemplated that the JV Company will seek to acquire further vessels if market conditions are favourable to increase its transportation volume and expand its customer base to steel mills and traders, importers, exporters and/or end users of bulk cargo of new material and grain in bulk.

Based on the 2010 annual report of the Company, the carrying value of the Group's investment in the JV Company amounted to approximately HK\$15,000 as at 31 December 2010. The carrying value is not significant as the JV Company has obtained borrowings from financial institutions to finance the acquisition of carriers.

In light of the above, the Directors consider that the Company has sufficient level of operations and tangible assets of sufficient value to warrant the continued listing of the Shares after the Disposal. The Company does not have any present intention to dispose of the business of the Remaining Group.

LISTING RULES IMPLICATIONS

The Disposal constitutes a very substantial disposal for the Company under the Listing Rules and is therefore subject to the approval of the Shareholders at the EGM by way of poll. As no Shareholder has a materially different interest in the Disposal, no Shareholder is required to abstain from voting on the relevant resolution to be proposed at the EGM to approve the Agreement and the transactions contemplated thereunder. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser and its associates (as defined in the Listing Rules) did not hold any Shares as at the date of the Agreement.

A circular containing details of the Agreement, financial information on the Group, the China Green Power Group and the Remaining Group, and other information required under the Listing Rules together with the notice of the EGM is expected to be despatched to the Shareholders on or before 10 June 2011.

RESUMPTION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 16 May 2011 pending the release of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on 20 May 2011.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings:

“Agreement”	the conditional sale and purchase agreement dated 13 May 2011 between the Vendor and the Purchaser in relation to the Disposal
“Board”	the board of Directors
“Chengde Kuanping”	承德寬平鐵路有限公司 (Chengde Kuanping Railway Limited*), which is 62.5% owned by Gofar
“Chengde Zunxiao”	承德遵小鐵路有限公司 (Chengde Zunxiao Railway Limited*), which is 62.5% owned by Gofar
“China Green Power”	China Green Power Holdings Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Vendor prior to Completion
“China Green Power Group”	China Green Power and its subsidiaries
“China Oriental”	China Oriental Group Company Limited, a company incorporated in Bermuda whose shares are listed on the Main Board of the Stock Exchange (stock code: 581)
“Company”	Asia Energy Logistics Group Limited, a company incorporated in Hong Kong with limited liabilities, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 0351)
“Completion”	completion of the Disposal in accordance with the terms and conditions of the Agreement

“connected person(s)”	has the meanings ascribed thereto in the Listing Rules
“Consideration”	the aggregate consideration of HK\$50,000,000 for the Sale Share and the Sale Loan under the Agreement
“Director(s)”	director(s) of the Company
“Disposal”	the disposal of the Sale Share and the Sale Loan by the Vendor to the Purchaser pursuant to the terms and conditions of the Agreement
“Dongguan CSCP”	東莞中科環保電力有限公司 (Dongguan China Sciences Conservational Power Limited*), a wholly foreign-owned enterprise established in the PRC and an indirect wholly-owned subsidiary of China Green Power
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider the Agreement and the transactions contemplated thereunder
“Gofar”	Gofar Holdings Limited, a wholly-owned subsidiary of the Company
“Gofar Group”	Gofar and its subsidiaries
“Group”	the Company and its subsidiaries
“JV Company”	Ocean Pro Holdings Limited, a company incorporated in the British Virgin Islands with limited liability which is held as to 50% by Ocean Jade and as to 50% by Waibert Navigation Company Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Ocean Jade”	Ocean Jade Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“PRC”	The People’s Republic of China
“Purchaser”	Wise Track Group Limited, a company incorporated in the British Virgin Islands with limited liability
“Remaining Group”	the Group immediately after Completion
“Sale Loan”	the entire amount of the shareholder’s loan owed by the China Green Power Group to the Vendor as at Completion
“Sale Share”	1 ordinary share of HK\$1.00 in the capital of China Green Power, representing 100% of the issued share capital of China Green Power as at the date of the Agreement and at Completion

* for identification only

“Share(s)”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tangshan Tangcheng”	唐山唐承鐵路運輸有限責任公司 (Tangshan Tangcheng Railway Transportation Company Limited*), which is 51% owned by Gofar
“Vendor”	Palace View International Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
“Zunxiao Railway”	the railway of the Gofar Group under construction which runs through 唐山市遵化南 (Zunhua South of Tangshan City) to 承德市小寺溝 (Xiaosigou of Chengde City) in Hebei Province
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“km”	Kilometre(s)
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the Board
Asia Energy Logistics Group Limited
Liang Jun
Executive Director

Hong Kong, 19 May 2011

For illustration only, amounts in RMB in this announcement have been translated into HK\$ at the rate of RMB1 = HK\$0.837. No representation is made that any amounts in HK\$ and RMB have been or could be converted at the above rate or at any other rates or at all.

As at the date of this announcement, the executive Directors are Mr. Liang Jun, Mr. Fung Ka Keung, David and Ms. Yu Sau Lai; the non-executive Directors are Mr. Yu Baodong (Chairman), Ms. Sun Wei and Mr. Tse On Kin; and the independent non-executive Directors are Mr. Chan Chi Yuen, Mr. Zhang Xi and Professor Sit Fung Shuen, Victor.

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